



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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In the Matter of the Application of
California American Water Company
(U 210 W) for a Certificate of Public
Convenience and Necessity to Construct
and Operate its Coastal Water Project to
Resolve the Long-Term Water Supply
Deficit in its Monterey District and to
Recover All Present and Future Costs in
Connection There with in Rates.

A.04-09-019

**OPENING BRIEF OF THE DIVISION OF RATEPAYER ADVOCATES ON
CALIFORNIA AMERICAN WATER COMPANY'S
REQUEST FOR INTERIM RATE RELIEF**

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Pursuant to Rule 75 of the Commission's Rules of Practice and Procedure and the schedule set by Administrative Law Judge ("ALJ") Bertram Patrick, the Division of Ratepayer Advocates ("DRA") files its Opening Brief addressing California American Water Company's ("Cal Am") request for interim rate relief in its Application for a Certificate of Public Convenience and Necessity ("CPCN") to construct and operate its Coastal Water Project, Application ("A") 04-09-019.

DRA recommends the Commission allow Cal Am to implement a surcharge to recover preconstruction costs after the Commission has issued a CPCN for the project and after preconstruction costs have been reviewed for reasonableness. Specifically, DRA recommends the Commission defer approving recovery of the engineering and environmental preconstruction costs incurred through 2005 and authorize DRA to hire a contractor under a reimbursable contract to review these costs and 2006 and 2007 preconstruction costs. DRA recommends the Commission disallow \$1.2 million in public outreach and administration costs incurred through 2005 as unreasonable and unnecessary.

To prevent rateshock, DRA recommends that the Commission authorize Cal Am to implement a limited surcharge to fund the Coastal Water Project, or alternative, that

would begin after the Commission has approved the project and after construction on the project had begun. DRA agrees with Cal Am's recommendation to treat the revenue generated from the surcharge as a contribution to off-set the cost of the Coastal Water Project or alternative. The Commission should limit the amount that ratepayers will contribute to 10 percent of Cal Am's authorized revenue requirement for the year. The customer contribution to the Coastal Water Project should be permanently excluded from ratebase to protect ratepayers. The Commission should also adopt the other safeguards described more fully below.

Because of inequities in Cal Am's rate design which result in customers being charged vastly different amounts for the same water usage, DRA recommends that both surcharges be structured as volumetric charges on each unit of water. With a volumetric surcharge everyone that uses the same amount of water will pay the same surcharge amount. DRA also recommends that ratepayers participating in Cal Am's low-income program pay half of any surcharge the Commission authorizes.

I. BACKGROUND

In March 1997, Cal Am filed an application (A.97-03-052) for a CPCN and ratemaking treatment for the Carmel River Dam. Cal Am was under orders to comply with State Water Resources Control Board ("SWRCB") Order WR 95-10. In Order 95-10, the SWRCB ruled that Cal Am was illegally diverting 10,730 acre feet from its Carmel Valley wells and ordered Cal Am to develop and implement a plan to replace this water, which represented approximately 69% of the district's water supply.¹

On August 6, 1998, the CPUC issued D.98-08-036 requiring Cal Am to prepare a water supply contingency plan describing the program or combination of programs that

¹ The average annual amount of water pumped from the Carmel River in the 1980s by Cal Am was 14,106 AF. The SWRCB ruled that Cal Am did not have a legal right to 10,730 AF annually. Therefore, Cal Am only had a legal right to 3,376 AF. The SCRCB ordered an immediate 20% reduction in the 14,106 AF, to the current interim limit of 11,235 AF. This limit is short term until the full reduction can be achieved. Under SCRCB Order 95-10 any new water supplies must offset Carmel River pumping on a one-for-one basis, i.e. for each new AF of water developed, pumping on the Carmel River must be reduced by an equivalent amount.

the company would pursue if for any reason the new Carmel River Dam project did not go forward. Subsequently the Legislature adopted legislation (Assembly Bill 1182, Chapter 797, Stats. 1998, Keeley) directing the Commission to take charge of identifying the long-term water supply contingency plan for the Monterey Peninsula to replace the 10,730-acre feet from the Carmel River described in Decision No. 98-08-036. The Commission then engaged consultants to develop a proposed water supply contingency plan, generally known as “Plan B.” The Plan B Project Report was issued in August 2002, and identified a desalination project as the preferred alternative to the Carmel River Dam.

In February 2003, after six years of pursuing this dam, Cal Am filed an amendment to its 1997 Carmel River Dam application. The amendment requests a CPCN to construct the Coastal Water Project – a desalination plant on Monterey Bay combined with an aquifer storage recovery project in Seaside – in lieu of the dam, which was no longer viable for a number of reasons.

On September 4, 2003, the Commission issued D. 03-09-022 dismissing the Carmel River Dam application and ordering Cal Am to file a new application for the Coastal Water Project, to prepare a proponents environmental assessment (“PEA”) and to establish memorandum accounts to track certain preconstruction costs and public information costs for the Coastal Water Project. The Commission also concluded it would be the lead agency under the California Environmental Quality Act (“CEQA”) for the environmental review.

Specifically, in its amendment, Cal Am sought authorization to allow costs associated with initial, preliminary engineering studies, environmental studies, analysis of necessary permitting requirements, and development of cost estimates for the Coastal Water Project to be booked to construction work in process (“CWIP”) or to a deferred debit account that would earn Cal Am’s authorized rate of return. (*Id.* at p. 19.)

The Commission denied Cal Am’s request to allow costs associated with initial preliminary engineering studies, environmental studies, studies required for various applicable permits, and cost estimates for the Coastal Water Project to earn Cal Am’s

authorized rate of return. Instead, the Commission authorized Cal Am to create a memorandum account to track and book these costs. (*Id.* at OP 6, 7.) The Commission authorized Cal Am to earn interest on the costs booked to the memorandum account at the 90-day commercial paper rate. (*Id.*) In denying Cal Am's request, the Commission stated:

Because the Coastal Water Project will clearly require a significant period of time for construction, distinguishing it from typical water utility construction projects, we conclude that it is not entitled to specialized CWIP ratemaking treatment offered to short duration water projects. In addition, the costs at issue here are predecessor costs to construction costs, in other words, construction work is not underway on the project and thus they are not funds used during construction. It remains unclear at this time when (or whether) any plant construction will commence. Therefore, allowing these preliminary costs to earn the utility's authorized rate of return now carries with it significant risk that the ratepayers may never receive the benefits of these expenditures.

For these reasons, we conclude that the most appropriate manner to track these costs is for Cal-Am to establish a memorandum account to book costs associated with initial, preliminary engineering studies, environmental studies, analysis of necessary permitting requirements, and development of cost estimates for the Coastal Water Project. The memorandum account shall accrue interest at the 90-day commercial paper rate. As the status of the proposed project becomes more certain (for example, if a CPCN is granted or construction is underway), we will consider modifying this ratemaking treatment upon application by Cal-Am. Decision 03-09-022, pp. 21-22.)

In September of 2004, Cal Am filed this application requesting a CPCN to construct and operate the Coastal Water Project and recover all past, present and future costs in rates. Cal Am initially sought authorization to recover some of the Coastal Water Project costs as part of the Monterey District general rate case, Application ("A.") 05-02-012. In response to an ALJ and Assigned Commissioner ruling finding that the

issue should be dealt with through this application, on July 14, 2005 Cal Am filed a motion for interim rate relief along with an amended CPCN application.²

While Cal Am's July 14, 2005 motion made four special requests for surcharges and a connection fee to recover costs of the Coastal Water Project, Cal Am subsequently withdrew this request and replaced it with a request to implement two surcharges, surcharges 1 and 2 described below.

A. Summary of Cal Am's Special Request # 1 and Special Request # 2

In Special Request 1, Cal Am asks the Commission to authorize implementation of a surcharge to recover preconstruction expenditures for the Coastal Water Project. Cal Am seeks recovery of costs already booked to the Coastal Water Project memorandum account and future preconstruction costs. Cal Am also requests that the Commission permit Cal Am to earn its authorized rate of return on preconstruction costs rather than interest at the 90 day commercial paper rate as previously ordered by the Commission in D.03-09-022. Cal Am estimates preconstruction costs with interest at its authorized rate of return will total \$28,802,759.

² The amended application included Cal Am's Proponents Environmental Assessment for the Coastal Water Project.

Special Request 1 – Preconstruction Costs, Interest & Totals³

Phases / time incurred	Costs	Interest*	Total
Phase 1 – recorded costs through 12/31/05	\$8,674,759 ⁴	\$3,050,000	\$11,724,759
Phase 2 – estimated costs incurred from 12/31/05 through 12/31/06	\$5,048,000	\$1,930,000	\$ 6,978,000
Phase 3 – estimated costs incurred from 12/31/06 through 12/31/07	\$7,590,000	\$2,510,000	\$10,100,000
Total	\$21,312,759	\$7,490,000	\$28,802,759

*Cal Am proposes interest on the declining balance at their authorized rate of return, estimated at 8.33%.

Cal Am proposes phasing in the surcharge for preconstruction cost recovery. It proposes an initial surcharge of 4 percent starting on January 1, 2007, increasing to 7 percent six months later on July 1, 2007, and to 10 percent on July 1, 2008. The preconstruction costs surcharge would continue at 10 percent until 2014 or whenever the preconstruction costs are recovered.

In Special Request 2, Cal Am requests approval of a surcharge to pre-collect funds to offset yet to be incurred construction costs. These funds would be designated as “customer contribution.” Cal Am proposes a 15 percent surcharge starting January 2007, increasing to 30 percent in September 2007, to 45 percent in May 2008, and to 60 percent in January 2009. The surcharge would remain at 60 percent of the customer’s bill until the Coastal Water Project or alternative long-term supply solution is completed or until it is reviewed as part of Cal Am’s 2011 Monterey District general rate case. (Exhibit 12, p. 4)

The cumulative effect of surcharges #1 and #2 would be a 70 percent increase in every customer’s total bill over a two-year period. This 70 percent increase does not

³ Stephenson, Exhibit 13A, p. 4 and Ex. C, page 1.

⁴ During hearings, Cal Am further reduced phase 1 preconstruction costs by \$11,325. (Exhibit 64, p. 2.)

include the rate increases associated with the pending Monterey District general rate case or any rate increase that will occur in January 2009 as a result of Cal Am's next rate case application, which will be filed in 2008.

Cumulative effect for Special Request #1 and #2 Surcharges *

Time Period	Special Request #1 Surcharge	Special Request #2 Surcharge	Cumulative Surcharge as a Percentage of Bill *
January 2007	4%	15%	19%
July 2007	7%	15%	22%
September 2007	7%	30%	37%
May 2008	7%	45%	52%
July 2008	10%	45%	55%
January 2009	10%	60%	70%

*Does not include general rate increases that will occur in the Fall of 2006, January of 2007, January of 2008, and January of 2009.

If the Commission grants both of Cal Am's surcharge requests, the water bill for the average Monterey residential customer would increase from the current \$31.98 to \$69.45 under the current rate design.⁵

II. SPECIAL REQUEST 1 – PRECONSTRUCTION COST SURCHARGE

DRA opposes allowing Cal Am to begin recovery of preconstruction costs before the Commission issues a CPCN for the Coastal Water Project and before such costs are reviewed for reasonableness. DRA also opposes changing the amount that Cal Am can earn on these costs as little has changed since the Commission issued D.03-09-022. DRA, however, is willing to allow Cal Am to begin recovery of these costs before the plant is placed into service and has been determined to be used and useful to help mitigate the eventual rate shock that would likely occur if recovery of both preconstruction and

⁵ This assumes a family of three people, on a 3/8 acre lot with no large animals using 7 Ccfs of water per month. (Exhibit 18, p. 11.)

construction costs happened all at once.

A. Recovery of preconstruction costs should not occur until the Commission has granted Cal Am a CPCN to build the Coastal Water Project

In D.03-09-022, the Commission provided guidance on when reevaluation of the ordered ratemaking treatment of preconstruction costs should occur. The Commission stated: “[a]s the status of the proposed project becomes more certain (for example, if a CPCN is granted or construction is underway) we will consider modifying this ratemaking treatment.” (D.03-09-022, p. 22 emphasis added.)

The Commission should continue to adhere to the ratemaking treatment provided in D.03-09-022 and deny Cal Am’s request to begin recovering preconstruction costs before the Commission grants Cal Am a CPCN for the Coastal Water Project.

1. There is still much uncertainty surrounding the Coastal Water Project.

Unfortunately much about the Coastal Water Project remains uncertain. Cal Am is already significantly behind schedule on the Coastal Water Project and the current schedule for completion is anywhere from late 2010 to 2012⁶ if all permits are granted. Cal Am must obtain more than 40 permits or approvals for the Coastal Water Project to proceed and almost are contingent on the Commission’s approval of the CPCN. (Cal Am/Feizollahi, 2 Reporter’s Transcript (“RT”) 131.) Cal Am has not yet even secured a project site. (Exhibit 18, p. 18.)

Cal Am’s pilot plant, a key element of the project, is well over a year late. Mr. Feizollahi testified that Cal Am needs permits from the County of Monterey, the Coastal Commission, and the State Regional Water Control Board to operate its pilot project. (Id. at p. 83.) While Cal Am had recently estimated that the pilot plant would be up and

⁶ Cal Am recently filed Advice Letter 652-W requesting authorization to establish a memorandum account to track compliance payments to the National Oceanic and Atmospheric Administration. In the settlement attached to the advice letter, Cal Am states that it contemplates having the Coastal Water Project in operation by 2012 at the earliest.

running in October of 2006, that estimate assumed that all of the required approvals would be completed by early September. (Id. at pp. 84-85, 140.) Cal Am's time line, however, did not take into consideration possible appeals at each of the permitting agencies. (Id.) At the time of hearing, Cal Am had obtained only the permit from Monterey County for the pilot plant.

The evidence demonstrated that there are still uncertainties about the final project and about who will own and operate the plant. Ownership of the project is of critical importance because how the project is funded and how customers pay for it will be significantly affected depending on whether it is a publicly or privately owned plant. A publicly owned plant, for example, could be financed through bonds rather than through rates. (Cal Am/Feizollahi, 2 RT 88.) If the final project is a regional plant, ratepayers would pay less because there would likely be more efficient because of economies of scale and preconstruction costs and construction costs would be recovered over a larger customer base. (Cal Am/Gallery, 3 RT 289.).

Monterey County Code 10.72.030 mandates that desalination plants be publicly owned and operated. This provision is part of Title 10, which is the Health and Safety section of the code and thus presumably was enacted to assure the health and safety of the community. Cal Am, however, appears to be giving this ordinance little consideration. Mr. Feizollahi testified Cal Am believes that the ordinance is not enforceable. (Cal Am/Feizollahi, 2 RT 102.) However, Cal Am has no plans to take legal action to challenge the ordinance. (Id.)

Cal Am seems to think that Monterey County may not enforce this ordinance. However, Mr. Feizollahi testified that Cal Am has not gotten any indication from Monterey County that the ordinance would not be enforced. (Id. at p. 100.) Moreover, Mr. Feizollahi testified that he is not aware of any action under way by the County to change this ordinance. (Id. at p. 101.)

A county cannot simply ignore an ordinance. Until such time as the ordinance is changed or overturned by the courts, the ordinance must be followed and the ordinance requires that the Coastal Water Project, or any other desalination project, be publicly

owned and operated. Thus, at this juncture, not only are key variables for the Coastal Water Project still uncertain, it cannot legally be built as a private sector facility in Monterey County.

The Monterey community continues to have a substantial interest and involvement in developing a regional water supply solution. The Managers Working Group is a group of representatives from local public agencies that are exploring potential public ownership of a water supply project for Monterey County. (Exhibit 4, Ex. 18.) The group has drafted a memorandum of understanding to initiate a collaborative process to develop a regional water supply solution for the Monterey Peninsula. (*Id.* at p. 6.)

Even Cal Am admits that the final plant could be a regional, publicly owned facility. Mr. Townsley, the President of Cal Am and President of the Western Region of American Water Works Company, testified that the final ownership of the Coastal Water project is uncertain because it is just too early to tell whether the Coastal Water Project would be a publicly owned or privately owned facility. (Cal Am/Townsley, 3 RT 185-86.) Despite this uncertainty, Cal Am wants to force its customers to begin funding the project years before any construction would begin. Mr. Feizollahi testified that Cal Am has anticipated that there could be a regional facility and that it would likely be publicly owned or be some sort of public/private partnership. (Cal Am/Feizollahi, 2 RT 97.) Mr. Feizollahi testified that Cal Am's proposal was "flexible for the potential probability that some day it becomes a regional facility." (*Id.*)

It is even possible that the Commission could approve a regional facility through the CEQA process and could even consider Pajaro Sunny Mesa Community Services District's competing desalination project as an alternative project in the EIR evaluation. Pajaro Sunny Mesa Community Services District has partnered with Poseidon Corporation and is proposing a 20 million gallon per day competing desalination plant on the former National Refractories site, across the street from Cal Am's preferred site at the Moss Landing Power Plant. (Exhibit 18, p. 18.)

Cal Am wants to recover costs from ratepayers now and require any public agency that may take over the project to compensate ratepayers for all of the preconstruction or

construction costs ratepayers have paid for. (Cal Am/Feizollahi, 2 RT 97.) How ratepayers would be compensated for their prior payments is unknown. (*Id.* at pp. 122-23.) The risk associated with the final ownership structure of the Coastal Water Project is a risk that should remain with Cal Am's shareholders and not be transferred to the ratepayers. Given that it will be largely within the purview of Cal Am's management to negotiate any deal to change the ownership of the project, it is appropriate for shareholders to bear the risks that may be associated with any change in ownership.

The logical solution is to delay recovery of preconstruction costs until Cal Am has received its CPCN from the Commission. At that time, it is more likely the precise nature of the final project-- whether stand alone or regional-- would be known. In addition, the efforts by public agencies to develop a publicly owned, regional solution to the Monterey water supply problem will be more fully developed and further action could be taken at that time as needed.

2. Shareholders, not ratepayers, bear the risk of preconstruction costs for a project that has not and may not be approved.

If the Commission allows Cal Am to recover preconstruction costs before a final project is put in service and is used and useful, the Commission is effectively shifting the risk that the project may never be approved from the shareholders to the ratepayers.

In Application 83-12-068, PG&E sought approval from the Commission to change current policy and allow PG&E to expense preconstruction costs on a prospective basis. In denying PG&E's request, the Commission found that there were two features of PG&E's request that were particularly troubling and which the Commission could not accept.

First, PG&E's proposal would require the Commission to review the reasonableness of these expenditures on an estimated basis before the expenditures are incurred. The Commission found that this would give the Commission "little or no opportunity for subsequent review as there is presently." (Re Pacific Gas and Electric Company, 14 CPUC 2d 15, 50.)

Second, the Commission found that by allowing PG&E to receive “financing for such expenses up front, there will be no risk of abandonment to the shareholders. The entire risk will be borne by ratepayers.” (Id.) The Commission found that transferring this risk from the shareholders to the ratepayers would result in PG&E having “little or no incentive to fund only those proposed projects which have a reasonable likelihood of success.” (Id.) Similarly, allowing such recovery would remove the company’s incentive to keep preconstruction costs to a minimum.

Cal Am’s request is similar to PG&E’s in that allowing Cal Am to recover its preconstruction costs before the project is used and useful or before the final project is even approved, transfers the risk of abandonment from the shareholders to the ratepayers. Utility shareholders are compensated for the risk they take when the Commission sets the company’s authorized rate of return. (Id. at p. 40.) Cal Am, however, does not propose any reduction to its rate of return in exchange for this transfer of risk from the shareholders to the ratepayers.

While DRA does not propose delaying recovery of preconstruction costs until the project is used and useful, it does recommend that the Commission proceed carefully when departing from traditional ratemaking. Even if the Commission issues Cal Am a CPCN for the Coastal Water Project or alternative project, it is still possible that the project may never be built. Numerous other agencies, including the California Coastal Commission, will need to approve the project. Moreover, granting Cal Am’s requests will substantially burden its Monterey’s customers for what could very well turn out to be an apocryphal project. Several environmental groups oppose this project and there is no evidence that ratepayers are willing to have their rates doubled to pay for this project despite Cal Am’s public outreach campaign. Thus allowing Cal Am to recover preconstruction costs before the project is in service and is used and useful still shifts significant risks from the shareholders to the ratepayers.

Nevertheless, DRA sees some merit in allowing Cal Am to begin recovering some preconstruction costs after a CPCN is issued but before the final project is placed into service to address the potential rate shock that could exist if recovery is deferred until the

project is complete. However, this type of a departure from traditional ratemaking should only occur if all costs are thoroughly reviewed for reasonableness before the costs are recovered.

Moreover, Cal Am should continue to earn interest at the 90-day commercial paper rate on its preconstruction expenditures as the Commission ordered in D.03-09-022. The Commission has already held that allowing Cal Am to earn the utility's authorized rate of return on these preconstruction carries with it significant risk that the ratepayers may never receive the benefits of these expenditures. (D.03-09-022, p. 22.) Cal Am's proposal would effectively shift the risk of project abandonment from the shareholders to the ratepayers. At the same time Cal Am proposes to earn interest on the preconstruction expenditures at its authorized rate of return. Cal Am's shareholders would enjoy a significant windfall if Cal Am's rate of return were allowed to remain unchanged even though its proposal would significantly lower its risk profile.

B. Cal Am's preconstruction costs need to be reviewed for reasonableness prior to recovery

Prior to allowing any preconstruction costs for recovery, the Commission must make sure that preconstruction costs are audited and evaluated for reasonableness. Such review must include not only whether the costs themselves are reasonable but also whether the work performed was necessary or whether it was duplicative of similar work done by others and thus could have been avoided.

DRA conducted a limited audit of preconstruction costs that were incurred through 2005. As stated in DRA's audit report, DRA's audit was limited to the questions of whether the expenses were properly accounted for and whether Cal Am was seeking recovery of costs that were the type regularly disallowed by the Commission. (Exhibit 19, p. 8.)

As discussed below, DRA did not have the expertise to conduct a reasonableness review of Cal Am's engineering and environmental preconstruction costs incurred through 2005. For this reason, DRA recommends that the Commission defer approving recovery for the engineering and environmental preconstruction costs through 2005 and

authorize DRA to hire a contractor under a reimbursable contract to review these expenditures for reasonableness as part of a later phase of this proceeding or as part of a subsequent separate application process.

1. DRA needs consulting expertise to review the engineering and environmental costs through 2005 for reasonableness and the future preconstruction costs once incurred

Cal Am requests recovery of \$5,670,073 in preconstruction costs incurred through 2005 that it categorizes as “engineering and environmental costs.”⁷ (Exhibit 19, p. 4.) The bulk of these costs were paid to RBF Consulting, the firm Cal Am hired to develop the Coastal Water Project and to prepare the required Proponents Environmental Assessment (“PEA”). The work RBF did for Cal Am is described in the Scope of Work documents attached to the Testimony of Mr. Gallery on the Late-Filed Exhibit (Exhibit 65, Ex. A, B, & C.).⁸ These documents include such tasks as preliminary design and permitting of the pilot plant facility, horizontal directional drilling feedwater supply investigation, water hydrodynamic modeling, marine biological resources assessment, hydrogeologic analysis associated with the ASR projects, evaluation of membrane cleaning solutions, geology and soils investigations, and much more.

Mr. Gallery testified that RBF itself had to hire a number of subcontractors with specific expertise to perform certain tasks. Mr. Gallery testified that RBF hired expert Flow Science to perform hydrodynamic modeling. (Cal Am/Gallery, 7 RT 789-90.) Flow Science’s work involved modeling the characteristics of the brine discharge from the desalination plant as it goes through the Duke or Moss Landing Power plant. (*Id.*) RBF also hired Ninyo and Moore to perform general geotechnical services, ASR Systems

⁷ DRA removed the CPUC filing fee of \$177,545 from this category.

⁸ The Scope of Work A, with some limited exceptions, describes the tasks that RBF consulting performed for Cal Am from March 2004 through September 2004. Scope of Work B generally describes the tasks RBF performed from approximately September 2004 to September 2005. The August 15, 2005 letter and Scope of Work describes the tasks RBF consulting performed from August 12, 2005 onwards (Cal Am/Gallery, 7 RT 784-786; Exhibit 65, Ex. A, B, & C.)

to perform aquifer storage and recovery analysis, Kinnetics Labs for biological resource assessment, HT Harvey for terrestrial biology and cultural resource issues, Malcolm Pirine for design construction and procurement of desalination facilities, among others. (Id. at 789-798.)

DRA does not have the expertise on staff to review these types of costs for reasonableness. Desalination and ASR are highly technical, complex, and rapidly developing fields. According to Mr. Berger, the General Manager of the Monterey Peninsula Water Management, DRA would need an expert with knowledge of desalination and ASR to review the reasonableness of the Coastal Water Project's environmental and engineering costs. (MPWMD/Berger, 3 RT 228-30.)

Experts also must look at costs for possible duplication with other projects. As described in more detail by MPWMD witness Mr. Bell, some specific features of an ASR project require specific expertise that make an ASR different from a standard well. (MPWMD/Bell, 3 RT 241-42, 252) In fact, even though Mr. Bell is a registered Civil Engineer and Agricultural Engineer with over 25 years of experience in water resource planning, engineering, and management in California with specific professional experience in the fields of municipal water supply, water rights and geotechnical engineering, he testified that he did not have the expertise to compare Cal Am's ASR and MPWMD's ASR projects to determine if there had been duplicative studies done or if certain costs could have been avoided. (Id. at p. 243; Ex. 16, p. 3.)

Similar potential duplication issues surround the desalination portion of this Coastal Water Project. Cal Am estimates that its desalination pilot project will cost approximately \$2.9 million. (Cal Am/Feizollahi, 2 RT 140.) Pajaro Sunny Mesa Community Services District is actively pursuing its own desalination pilot plant. It is unknown whether these costs are duplicative or whether Cal Am could have coordinated with the Pajaro Sunny Mesa Community Services District to avoid some of these costs. Mr. Feizollahi testified that he did not have a description of the Pajaro Sunny Mesa's pilot plant test project or details of its tests and plans. (Id.) Mr. Townsley testified that there may be areas where coordination with the Pajaro Sunny Mesa Community Services

District could avoid duplication of costs but there has been no progress made yet in this area. (Cal Am/Townsley, 3 RT 201.) While these are competing desalination plants, they both are eyeing the same customer base. For the Pajaro Sunny Mesa plant to be financially viable it would likely need a long term contract for water from Cal Am. While the jury is still out, it is possible that this could be the most economic alternative for Cal Am ratepayers. If the Pajaro Sunny Mesa Community Services District's plant is the final project that is built, Cal Am ratepayers could potentially have to pay for pilot plant costs twice and pay for other duplicative costs because Pajaro Sunny Mesa's desalination plant would be a regional plant that would provide wholesale water to Cal Am to meet its water supply needs.

An expert in the area of desalination and ASR is needed to review the reasonableness of all preconstruction costs but also a review is needed from the perspective of whether the costs could have reasonably been avoided. DRA does not have the required expertise on staff to perform this review.

DRA has retained a consultant to assist DRA with its Phase II review of the Coastal Water Project. The consultant has confirmed that if the contract with DRA is amended, or a separate contract is established, his team can do a reasonableness review of the preliminary engineering and environmental costs and assess the reasonableness of the costs and to what extent, if any, duplication of studies has occurred. The consulting team could start the review once the Commission has authorized the review as part of the final decision in this phase of the proceeding. The cost of this review is estimated to be \$30,000 to \$50,000 depending on what an initial review uncovers. DRA recommends the Commission order Cal Am to reimburse the Commission for the cost of this contract.

2. The time line for the Coastal Water Project allows for a review of preconstruction costs for reasonableness.

During the hearings, ALJ Patrick asked DRA witness Ms. Brooks about possible processes for reviewing the reasonableness of Coastal Water Project preconstruction costs as the costs are incurred. (ALJ Patrick, 6 RT 698-99.) ALJ Patrick stated that he

did not like the idea of waiting until a large amount of Coastal Water Project expenditures had been incurred before allowing recovery. (Id. at 699.) Judge Patrick also stated that he would not recommend that any of the costs reviews be done as part of general rate case proceedings. (Id. at p. 700.) The ALJ agreed that parties should brief the issue of possible processes for conducting future reasonableness reviews of preconstruction costs. (Id.)

DRA's recommendation to allow Cal Am to begin recovering already incurred preconstruction costs after Cal Am receives a CPCN for the Coastal Water Project (or alternative) and after the costs are reviewed for reasonableness is consistent with ALJ Patrick's stated inclination not to allow a huge amount of preconstruction costs to be incurred before allowing Cal Am to recover these costs from the ratepayers. While DRA had initially recommended that reasonableness reviews of preconstruction costs occur as part of future general rate cases, DRA understands ALJ Patrick's concern with not adding additional issues to rate case proceedings. DRA, therefore, recommends that the reasonableness review of engineering and environmental costs through 2005 and 2006 preconstruction costs occur as part of this proceeding or a separate application. A review of these costs could begin in early 2007 and should be concluded by mid 2007. Hearings on the reasonableness could occur as part of the later hearings on the EIR and CPCN aspects of this case. A final Commission decision on the reasonableness of these preconstruction costs through 2006 could be contemporaneous with the Commission's decision on the CPCN and recovery could be authorized at that time.

DRA recommends that the Commission order Cal Am to file a separate application in early 2008 for approval of 2007 costs. If the Commission approves a reimbursable contract for preconstruction costs incurred through 2006, DRA can further amend the contract for a review of 2007 costs. DRA expects this additional review to cost in the range of \$25,000. DRA would complete its audit and reasonableness review of these costs by mid-2008.

C. Cal Am's request to recover a minimum of \$35 dollars per customer for public outreach is unreasonable.

Cal Am has requested recovery of \$1,135,028 in what it designates as public outreach costs and \$226,553 in what it designates as administrative costs incurred by Nossaman, Gunther, Knox, and Elliot ("Nossaman") a lobbying firm Cal Am retained to conduct community outreach and education to the business community, agencies, legislators, and stakeholder groups and to provide project management related to public awareness of the Coastal Water Project. (Exhibit 42, p. 3; Exhibit 43, p.7.) All of these costs are properly considered to be a form of public outreach. Taken together, Cal Am spent a total of \$1.36 million through 2005 on public outreach, nearly 16% of all preconstruction expenditures through 2005. (Exhibit 18, p. 22.) This amounts to a cost of more than \$35 dollars per Cal Am ratepayer.² (*Id.* at p. 24.)

As discussed below, it appears that Cal Am allowed *carte blanche* spending on public outreach. There was little, if any, evidence that Cal Am made attempts to keep outreach costs to a minimum. Detailed budgets were not produced and contracts were not followed. Cal Am paid for multiple consultants to attend the informational meetings. Finally, Cal Am made little or no attempt to measure the success of its outreach program to justify its extravagant expenditures.

DRA finds Cal Am's spending unreasonable, excessive, and unnecessary. DRA recommends that the Commission allow Cal Am to recover only a reasonable amount for public outreach, which is \$160,000 or approximately \$4.25 per ratepayer.

1. Cal Am's outreach program was flawed from the outset

Although Cal Am claims to have examined several other outreach projects to determine the appropriate level of outreach and education needed for the Coastal Water

² DRA notes that this amount does not include costs associated with Mr. Tilden who was in charge of all of public outreach for the Coastal Water project as his time was not charged directly to the Coastal Water Project but is recovered, in part, through base rates. (Cal Am/Stephenson 6 RT 620-22.)

Project, some of the outreach projects Cal Am reviewed were ill suited for that purpose. (Exhibit 10, p. 5.) Moreover, Cal Am failed to consider the costs associated with these other outreach programs.

Cal Am witness, Tilden, testified that Cal Am primarily looked at two other outreach projects in developing the outreach program for the Coastal Water Project. (Cal Am/Tilden, 4 RT 344; Exhibit 10, p. 5.) Mr. Tilden testified that these projects were the Pebble Beach Company's Casa Palmero project and the Carlsbad desalination project. (Id.) Mr. Tilden's testimony also provided profiles for two other projects, the Miramar Water Treatment Plant Upgrade/Expansion Project and the Orange County Groundwater Replenishment System, which he claimed provided "useful comparisons to the public outreach necessary for a project like the Coastal Water Project." (Exhibit 10, p. 5 and Ex. A.)

The record in this proceeding, however, does not demonstrate how Cal Am used these projects to develop the Coastal Water Project outreach campaign. Moreover, in some cases, the record demonstrates that the projects were inappropriate models or poor comparisons.

Mr. Tilden testified that Cal Am used the Casa Palmero project in the development of the Coastal Water Project outreach program because it was the only recent water-related project on the Monterey Peninsula where there was extensive community outreach. (Cal Am/Tilden 4 RT 346-47.) He further testified that the Casa Palmero project was a land use development project consisting of lodging, a couple of hundred homes, and a golf course. (Id.)

In fact, the Casa Palmero project was a small spa/luxury resort, consisting of just a handful of rooms, located within the Pebble Beach resort. (IRWU/Bowhay, 5 RT 460.) While it is possible that there may have been significant outreach associated with this project, the use of this project as a model for Cal Am's Coastal Water Project is inappropriate. The Pebble Beach Company is a for-profit company that could spend as much on outreach as it thought it could recover through the rates and services provided by this luxury spa and resort.

Cal Am is not a luxury resort. Cal Am is a public utility providing an essential commodity to its ratepayers, many of whom are low-income ratepayers. Moreover, Cal Am did not even consider how much Pebble Beach spent on this campaign. (Cal Am/Tilden, 4 RT 344.) Using the outreach program of a for-profit luxury resort to help develop an outreach program for the Coastal Water Project is both inappropriate and disconcerting.

While two of the projects Mr. Tilden referred to in his testimony might have provided Cal Am with useful information in developing the public outreach campaign for the Coastal Water Project, the record shows that Cal Am failed to adequately research and evaluate these projects. The Carlsbad Desalination project and Orange County Groundwater Replenishment System, like the Coastal Water Project deal with contentious issues and are large in size and scope. The Orange County project is particularly controversial as it is a project to turn sewer water to potable water. (Exhibit 10, Ex. A)

Cal Am, however, made little, if any, attempt to obtain the cost information on these other projects. Mr. Tilden testified that Cal Am “did not have access” to cost information of these outreach program. (Cal Am/Tilden, 4 RT 344-349.) However, upon questioning, Mr. Tilden admitted that he never called anyone to try to obtain costs information on these or other outreach programs. (Id.).

While Cal Am claims that these projects were used to develop the Coastal Water Project public outreach campaign or are good comparisons, Cal Am did not even follow some of the most important aspects of these other outreach programs. The Orange County Water District sought letters of endorsement for its project and received more than 300 of such letters. (Exhibit 10, Ex. A, p. 7). The City of San Diego formed a successful community advisory group that is described in great detail in an attachment to

Mr. Tilden's testimony.¹⁰ (*Id.* at Ex. A 6.). However, Cal Am decided not to seek project endorsements and not to form a community advisory group. (Cal Am/Tilden, 4 RT 356, 428.)

Even contractors Cal Am hired to assist with the public outreach campaign recommended that Cal Am form advisory panels and seek endorsements. (Exhibit 38, p. 8; Exhibit 47, p 10). Despite the fact that advisory groups and endorsement letters were used in other successful projects and were apparently proposed by Cal Am's consultants, Cal Am did neither.

2. Cal Am public outreach expenditures far exceeded comparable campaigns of other water agencies

While Cal Am did not try to obtain cost information for other outreach campaigns, DRA did. As Ms. Brooks testified, the San Diego County Water Agency spent \$435,855 on the public outreach campaign for its desalination project. (DRA/Brooks, 6 RT 702.) Spread over the approximately one million households in the county, the total cost per household is \$0.44 per household, substantially less than the \$35 per customer Cal Am spent. (*Id.*)

DRA also obtained cost information for the Orange County Water District's Groundwater Replenishment System. As Ms. Brooks testified, the Orange County Water District spent about \$3,000,000 over a six-year period on their outreach program to convince customers to overcome their aversion to drinking water reclaimed from waste water, a very high hurdle to overcome. Spread over approximately 767,000 customers, the total cost per household is \$3.91, again significantly less than the \$35 per customer spent by Cal Am. (*Id.* at 703.) Moreover, Orange County's customer base was over 20 times larger than Cal Am's and a larger overall outreach budget was likely necessary to reach this much larger population. (Cal Am/Tilden, 4 RT 355.)

¹⁰ The Pajaro Sunny Mesa Community Services District also created a community advisory group for its desalination project that included local environmentalists, members of the business community, such as the Moss Landing Harbor Board and the Monterey Commercial Property Owners Association, and representatives from local government, including water boards and city councils. (Exhibit 56.)

DRA also obtained information on the costs of the Marin Municipal Water District's nine-month-long public outreach campaign to showcase its pilot desalination plant. As Ms. Brooks testified, the Marin Municipal Water District spent \$200,000, which amounted to about \$3.35 for each of its approximately 60,000 customers. (DRA/Brooks, 6 RT 701-702)

DRA's recommended allowance of \$4.25 per customers is generous and exceeds the per customer cost of other similar public outreach campaigns including those that were more controversial.

3. Cal Am has not demonstrated that its outreach expenditures are reasonable.

Cal Am has the burden to justify that its outreach expenditures are reasonable. One would expect Cal Am would do this by demonstrating that it developed an outreach plan for the Coastal Water project, created a budget for that plan, entered contracts to implement the plan that were within the budgeted amounts, and tracked costs and tasks back to the contracts and budgeted amounts. DRA would also expect that Cal Am would have employed some type of qualitative method to analyze the success of the outreach program. Unfortunately, Cal Am has done none of this.

Cal Am never created a budget for the entire Coastal Water Project public outreach campaign. (Cal Am/Tilden 4 RT 323.) Instead Cal Am created some form of a six month or annual budget at the beginning of the project in 2003. It is unknown if additional budgets were created and if they were for what time periods. (*Id.* at 324.) According to Mr. Tilden's testimony, the budget numbers were apparently developed before Cal Am even knew what the specific outreach elements would be. (*Id.* at 352.)

Cal Am has not offered as evidence information about its public outreach budget and budgeting process for 2002 through 2005. Although Mr. Tilden was in charge of all of the public outreach for the project, Mr. Tilden was unable to provide any budget numbers for any time period or information on how actual costs compared to alleged budgeted amounts. (Cal Am/Tilden, 323-26, 332.) Because there is no budget

information in the record, there can be no analysis of whether the budget was followed or whether it was reasonable.

Although Cal Am's testimony describes Cal Am's outreach efforts by describing seven different outreach efforts,¹¹ Cal Am did not budget or track outreach costs by these categories. Thus Cal Am did not provide any information on how much each of the outreach tasks described in Mr. Tilden's testimony cost. Although justifying its need to do community outreach on the Commission's statement in D.03-09-022 to "thoroughly explore opportunities for partnerships with other regional supply entities" Cal Am does not know what portion of its outreach costs were associated with this effort, an effort that has failed to date. (Cal Am/Tilden, 4 RT 358.)

Mr. Tilden's testimony indicates that Cal Am never even created an overall public outreach plan or communication plan. In response to questions in this area, Mr. Tilden testified that rather than devising an overall outreach plan, Cal Am created a calendar of activities. (Cal Am/Tilden 4 RT 371.) However, when Mr. Tilden was asked to produce such a calendar, all he was able to produce was a twelve-month communications calendar for the period of September 2005 through September 2006. (Exhibit 48.) Mr. Tilden did not know whether there were similar calendars created for the time period before September 2005 although that is when a significant amount of the public outreach costs were incurred. (Cal Am/Tilden, 7 RT 758.) Moreover, the calendar Mr. Tilden produced was not even followed as he testified that many of the activities contained in the calendar were never performed. (Cal Am/Tilden, 5 RT 506, 519-22.)

¹¹ These categories were 1) formal and informal briefings with elected officials, public agencies, and citizen boards; 2) formal presentations in the affected communities in Cal Am's service territory and neighboring communities; 3) informal briefings, presentations, and discussions with individual stakeholders and non-governmental organizations; 4) public information provided through the print and broadcast media; 5) easy public access to all project information through a web page; 6) easy local public access to a project library and permit coordination center facility; and 7) continued focus on water conservation. (Exhibit 9, p. 2)

In many cases, Cal Am had no contracts that described the work done by the contractors it hired to assist with the public outreach campaign or the contracts or scope of work documents were not followed.

Cal Am hired Armanasco Public Relations (“Armanasco”) to provide communications and media relations for the Coastal Water Project and to plan, schedule, publicize and execute the public town hall meetings. (Exhibit 42.) Cal Am provided a copy of an agreement with Armanasco as part of its late-filed exhibit (Exhibit 61.). The contract stated Armanasco would provide Cal Am with a Community Outreach Plan by April of 2004 that would define the specific tasks and duties it would perform. (Id., p. 11.)

Mr. Tilden, however, testified that there was no contract that defined the work that Armanasco would do for Cal Am and that the only contract Cal Am had with Armanasco was one that predated the Coastal Water Project and that was on an hourly fee basis. (Cal Am/Tilden, 4 RT 388, 396.) However, the contract marked as Exhibit 61 did not predate the Coastal Water Project and in fact states that it is specifically for outreach for the Coastal Water Project. While providing some hourly fee rates, the contract does not allow unlimited spending. (Exhibit 61, p. 11.)

The Armanasco contract was for a six month period starting in March of 2004 and states that there is a “not to-exceed budget” for the agreement of \$165,000.¹² (Id.) However, Cal Am paid Armanasco \$566,807 and requests recovery of \$526,853 of these costs. (Exhibit 19.) Cal Am has not provided any amendments to this contract that justifies the increase in expenditures, thus there is no documentation of what additional services were performed for the addition \$400,000.

Because the contracts were incomplete, it is difficult to follow what work the consultants were supposed to do and what in fact they did do. Although Armanasco created an Internal Community Relations Plan for Cal Am that described tasks that

¹² DRA notes that there is a March 25, 2004 memorandum with the March 2004 contract that indicates that the six month contract had a not to exceed price of \$180,000.

Armanasco proposed to perform for Cal Am, Mr. Tilden testified that this document was only a proposed plan and no final plan was ever created. (Cal Am/Tilden 4 RT 370.) Instead Cal Am just chose to follow certain aspects of the draft plan and disregard others. (Id. at p. 388.) Mr. Tilden testified that only about half of the tasks proposed by Armanasco in this plan were in fact performed. (Id.)

Similar problems existed with Cal Am's contracts with Energy Resources International ("ERI"). Cal Am informed DRA that ERI conducted community outreach to non-governmental organizations, assisted with town hall meetings, and reviewed Cal Am's PEA. (Exhibit 42, p. 2.) Cal Am provided a single contract to support ERI's work that was dated June of 2004. (Exhibit 61, p. 17.) The contract was for a six-month period and covered work on both the Coastal Water Project and the San Clemente Dam project.¹³ (Id. at pp. 19, 28-29.) The contract defined ten tasks that ERI was to perform for Cal Am on the Coastal Water Project and established a "not-to-exceed" price of \$40,000 for the Coastal Water Project work. (Id. at p. 29.)

Although the contract covered only \$40,000 of work, Cal Am paid ERI \$271,264 and requests recovery of \$251,801. (Exhibit 19, p. 7.) Cal Am did not provide any other contract for ERI or any amendment to this contract. Moreover, ERI did not perform all of the contracted tasks. Task 9 required ERI to solicit and obtain endorsements from community and elected officials, and environmental groups and organizations, however, Mr. Tilden testified that Cal Am did not seek endorsements from anyone. (Exhibit 61, p. 29; Cal Am/Tilden, 4 RT 430.) ERI also did not perform Task 8, assisting with creation of Independent Qualified Advisory Panels; Cal Am did not create any such panel. (Exhibit 61, p. 28-9; Cal Am/Tilden, 4 RT 428.)

Cal Am's contract with Nossaman, Guthner, Knox & Elliot, LLP ("Nossaman") also had similar problems. The only contract Cal Am provided for Nossaman's services was a December 22, 1999 letter from Ms. Margaret Catzen, Legislative Advocate for

¹³ It appears that Cal Am may have included costs associated with the San Clemente Dam project as part of the costs it seeks to recover as Coastal Water Project costs. (Exhibit 62, pp. 511, 518, 527.)

Nossaman. (Exhibit 61, p. 33.) The letter states that it “constituted the sole Lobbying Retainer Agreement” between Cal Am and Nossaman. (*Id.*) The letter describes the services Nossaman would provide as those related to advocacy, legislative and political strategy, and preparation of lobbying reports. (*Id.* at pp. 33-34). Because the letter predates the Coastal Water Project, it contains no discussion of any services specifically related to that project.

Cal Am had initially sought recovery of \$412,753 of Nossaman costs but Cal Am withdrew its request for recovery of \$186,200 of costs that it deemed could have been construed as advocacy costs. (Exhibit 19, p. 7.) However, Cal Am still seeks recovery \$226,553 it has classified as Legal & Administrative costs and not as public outreach costs. (DRA/Exhibit 19, p. 7.) However, the evidence demonstrates that the Nossaman costs were related to public outreach. Two data responses Cal Am provided to DRA specifically describe the Nossaman costs as public outreach related and not as legal, administrative or project management as Cal Am alleges. (Exhibit 42, p. 3; Exhibit 43, p. 7).

Cal Am also had no specific contract or budget for Coastal Water Project work performed by another consultant, Woodenship Advertising. Cal Am described Woodenship’s duties in a data response to DRA as assisting in or overseeing public outreach activities, including community town hall meetings, and work associated with print advertisements, educating people about desalination, press material regarding the CWP, PowerPoint presentations, and direct mail updates. (Exhibit 42, p. 2). However, all Cal Am could provide to support these services was a letter of engagement dated June 4, 2002 that does not describe any work tasks and appears to be just a compensation agreement discussing payment requirements. (Exhibit 61, p. 39.)

Cal Am has paid Woodenship \$198,286 and is requesting recovery of \$177,286 in Woodenship costs. (Exhibit 19, p. 7). However, as stated, there is no a contract listing tasks to be preformed, no work plan, no scope of work, and no budget justifying this amount or demonstrating that the amount was reasonable. Furthermore, most receipts do

not provide enough detail to determine if the services provided were more in the nature of advocacy or public education. (Exhibit 62, pp. 1043-1088.)

DRA is concerned that because Cal Am had multiple consultants completing overlapping public outreach functions, this led to excessive spending. For example, Mr. Tilden testified that at each of the 70 community meetings Cal Am held “[g]enerally there was at least one person from Armanasco, at least one person from RBF, and someone from ERI. Occasionally Mr. Phillips [from ERI] was there.” (Cal Am/Tilden, 7 RT, 743). These consultants are costing Cal Am hundreds of dollars an hour to attend meetings that may have been attended by only 15-20 people. (Cal Am/Tilden, 4 RT 387.) Because Cal Am did not track the costs by tasks, there is no information available on how much Cal Am spent for these meetings. (Id.).

DRA is also concerned that because the contracts and scope of work documents do not describe all of the work each contractor was to perform and because there was no budget for each of these contractors, multiple consultants have performed overlapping tasks. Cal Am did not clearly delineate areas of responsibility for its consultants in any type of written document that is evidence in this proceeding. As noted above, it appears that four of Cal Am’s consultants, Armanasco, ERI, Nossaman, and Woodenship, were responsible for the same or similar public outreach activities. (Exhibits 42, 43.)

Cal Am has the burden to justify that their outreach expenditures were reasonable. Cal Am should have provided a detailed outreach plan, explained how this plan was developed and budgeted, provide contracts with tasks that could be tied to the outreach plan, and provided the basis for budgeted amounts. In fact this appears to be the process that was followed by Cal Am and RBF consulting for the engineering and environmental aspects of the Coastal Water Project.¹⁴ Cal Am has not provided any of this information to support the reasonableness of the public outreach expenditures.

¹⁴ DRA has not reviewed this information for reasonableness but intends to do so in the subsequent phase of this proceeding.

Cal Am has not justified the reasonableness of the expenses it has incurred and when compared to expenses of other outreach programs, Cal Am's spending is excessive and unreasonable. Recovery of these expenses should be limited to what DRA proposes.

4. Cal Am's public outreach goal of educating as many people as possible about the Coastal Water Project is not a proper measurement tool to determine program success and it led to excessive spending.

The "goal" of Cal Am's outreach program was to educate as many people as possible about the Coastal Water Project. Mr. Tilden testified that the public outreach strategy was "to reach out to as many people as possible, [to] make sure they had knowledge of the project." (Cal Am/Tilden 4 RT 373.) Similarly, Cal Am measured the success of its outreach campaign by how many people were exposed to its public outreach campaign stating that it considered the Coastal Water Project campaign to be a success "because we ended the process with a better informed and educated group of residents." (Exhibit 10, p. 11.) What Cal Am did not do, however, was to perform any cost-effectiveness analysis to determine the success of any of the different components of its outreach program.

One aspect of the outreach campaign that Cal Am cites to show the success of its campaign was that it conducted 70 town hall and community meetings to educate the community on the Coastal Water Project. (Exhibit 10, p. 7.) While Mr. Tilden stated that he thought that the community meetings were successful, he did not offer any measurements to support his assertions. (Cal Am/Tilden, 4 RT, 398). Mr. Tilden admitted that he did not know the exact number of people that had attended the community meetings although the number of people educated is the way Cal Am measured the success of their outreach efforts. Moreover, Mr. Tilden did not know how much Cal Am had spent on those meetings. (Cal Am/Tilden, 4 RT, 397).

Even if, as Mr. Tilden speculated, Cal Am reached 1400 people in the community meetings, (Cal Am/Tilden, 4 RT, 397), the cost per person was most likely hundreds of dollars per person, given that Cal Am was paying multiple consultants up to \$450/hour

plus expenses to prepare for and attend them, as well as Mr. Tilden's costs plus other meeting-related costs (advertising, location rental, transportation, etc.). Measuring success based solely upon number of people educated without a cost effectiveness component creates an incentive to spend more money to educate more people.

Cal Am also claims its website was a success in providing the community with information about the Coastal Water Project claiming that "[t]o date, almost a quarter of a million visits have been made to our Coastal Water Project website" (Exhibit 10, p. 7.) However, Cal Am's claim that the website was a successful education method was based upon faulty calculation of site visits without any regard for site creation and maintenance costs. What Mr. Tilden did not understand was that the quarter million number he quoted to support high usage of the website referred to the number of 'hits' the website had received, not the number of unique visitors to the site. Viewing one page on the Coastal Water Project website would register a "hit" for each image or graphic that was contained on that page and has no relationship to the number of visitors to the website. (Exhibit 44.)

In fact, over a six-month period, Cal Am's Log Analyzer report shows that there were only 613 unique visitors to the site (Exhibit 10, Ex. B.). Even this number vastly overstates the number of people that visited Cal Am's CWP website because many of the 613 unique visitors were not even humans but were software applications called "internet bots" that crawl along websites searching for information. (Exhibit 45.) Mr. Tilden was not even aware of internet bots or that they were included in the statistics that he was relying upon to show the success of the Coastal Water Project website. (Cal Am/Tilden, 4 RT 420.) Moreover, Mr. Tilden also made no attempt to remove from these statistics usage by Cal Am's webmaster or consultants. (Id at 421.)

The data that Cal Am presented on its website usage was seriously flawed and cannot be used as a measure of success of its public information campaign. Moreover, because Cal Am could not specify exactly how much it spent on the website, there is no way to calculate the cost effectiveness of any usage even if good statistics did exist.

One widely recognized way to measure support for a public outreach project is through customer surveys. Indeed, surveys are one of the ten tasks Armanasco

recommended that Cal Am perform as part of the Community Relations Plan. (Exhibit 38, p. 7). However, Cal Am did not conduct any surveys to measure the success of its public outreach campaign. This is despite the fact that Cal Am had statistics available from a 2004 survey upon which it could have gauged changes in customer opinions.¹⁵ (Exhibit 37.)

Cal Am's justification for not conducting another survey is that it believes little has changed since the last survey. (Cal Am/Tilden 4 RT 436). Cal Am's belief that little has changed highlights that Cal Am's public outreach campaign has done little or nothing to change customers' opposition to the project.

5. Cal Am provided ratepayers with very little information on the rate impact of the Coastal Water Project despite knowledge of public opposition if it doubled rates over five years

One of DRA's objections to Cal Am's outreach efforts is that it focused almost entirely on the technical aspects of the Coastal Water Project and provided very little information to ratepayers on the rate impact of the project and did not attempt to gain customer support for this rate increase. As Cal Am was well aware, a survey of Cal Am ratepayers showed that 57 percent of ratepayers opposed the Coastal Water Project if it meant a doubling of their rates in five years while only 38 percent supported this idea. (Exhibit 37, p. 19.) Cal Am's proposal has rates doubling in two to two and a half years when general rate increases are also considered. (Exhibit 18, p. 11.)

Of the 70 community meetings held by Cal Am, Mr. Tilden could only identify three presentations where he was certain that the presentation contained information on the rate impact resulting from the Coastal Water Projects and that information was limited to 1 page of a 30 to 40 page PowerPoint document. (Exhibits 39, 40, & 41.) Instead Cal Am presentations contained dozens of pages of technical information on plant facilities and process. Moreover, none of the three presentations that Mr. Tilden provided

¹⁵ This 2004 survey found that there was not widespread support for the Coastal Water Project. (Exhibit 37, p. 19).

for the record were posted on Cal Am's Coastal Water Project web site. (Cal Am/Tilden, 4 RT 406.)

Cal Am could have easily used a bill insert to inform customers about the Coastal Water project and associated rate impacts and in fact a bill insert was suggested by Armanasco in the its proposed Community Relations Plans. (Cal Am/Tilden, 4 RT 390; Exhibit 38, p 6.) Instead Cal Am chose to hold 70 community meetings that reached possibly 1400 people. (Cal Am/Tilden, 4 RT 397.) A bill insert would have reached all 38,000 ratepayers.

Although Mr. Tilden testified that Cal Am provided customers with rate impact information on some occasions, there is very little evidence in the record supporting this testimony. Clearly Cal Am's campaign did not make the issue of customers' willingness to pay a central focus of its public outreach efforts. It did not focus on informing customers of the rate impact of the project and why the costs are justified, especially knowing that customers were likely to oppose the project at the anticipated costs.

III. SPECIAL REQUEST 2 – CONSTRUCTION COST SURCHARGE

In special request 2, Cal Am requests the Commission approve an unprecedented compensation scheme that requires the ratepayers to provide capital in the form of a "customer contribution" in lieu of shareholder funds. In this special request, Cal Am is also asking the Commission to require that ratepayers "prepay" for utility plant that is not yet used and useful by asking that ratepayers to begin paying for the project before it has been approved by the Commission and before construction has begun.

A. Traditional ratemaking does not allow recovery of construction costs until a plant is used and useful.

Under traditional ratemaking, capital project expenditures earn an allowance for funds used during construction ("AFDUC"), usually at the utility's authorized rate of return. When the project is completed and the plant is placed into service and is used and useful the expenditures and the AFDUC are placed into ratebase. This principle is often referred to as the "used and useful" principle.

Under the used and useful principle “ratepayers are required to bear only the reasonable costs of those projects which provide direct and ongoing benefits, or are used and useful in providing adequate and reasonable service to the ratepayers.” (Re Pacific Gas and Electric Company, (1983) 14 CPUC 2d 15, 50 (D.83-12-068)) Projects that are never completed or abandoned are never used and useful to ratepayers and thus costs are not borne by ratepayers. (Id.) Similarly costs incurred to determine the feasibility of a project that is later abandoned are borne by shareholders. (Id.)

The Commission has at times granted limited exceptions to the principle that shareholders bear the costs of abandoned projects. (Id.) However, exceptions to the used and useful principle are determined after the project is abandoned.

Cal Am is requesting a significant departure from the used and useful principle for the Coastal Water Project. Cal Am requests that the Commission authorize Cal Am to implement an increasing surcharge to pre-collect funds that will be used as customer contribution to offset future construction costs. Under Cal Am’s proposal, the surcharge would begin before the Coastal Water Project receives a CPCN from the Commission and would continue until the project is complete. Cal Am proposes that the revenues generated by the surcharge be used as a contribution to offset the costs of the Coastal Water Project, or other long-term water supply solution that address the constraints imposed by State Water Resource Control Board Order 95-10 and the Endangered Species Act.

Other utilities that have made requests to depart from the used and useful principle have been denied by the Commission. Recently, in Application 04-02-026, Southern California Edison (“SCE”) sought approval to be allowed to recover construction financing costs as they were incurred. SCE proposed accruing no AFDUC on the costs and placing only expenditures into ratebase.

The Commission denied SCE’s request. The Commission found that such a departure was “without precedent, and would have ratepayers paying for a project before it is used and useful to them.” (Re Southern California Edison, D.05-12-040, p. 54.) The proposal would shift the risk for recovery of the expenditures to the ratepayers if the

project was not completed or some event lead to the abandonment of the project. The Commission found that for there to be such a departure from traditional ratemaking, SCE “would have to demonstrate some extraordinary need for us to consider it.” (Id.) The Commission stated that “[o]ther than the fact that its financial ratings are lower than when it built SONGS, SCE has shown no financial need for its proposal.” (Id.)

The question becomes: Has Cal Am demonstrated some extraordinary need for the Commission to consider departing from traditional ratemaking principles? As discussed below, DRA agrees that some departure from traditional ratemaking is appropriate given the potential costs of the Coastal Water Project and the possible effect of the project on customer rates; however, Cal Am’s request goes far beyond what is necessary or reasonable.

B. DRA does not oppose a limited departure from traditional ratemaking to prevent rate shock

DRA agrees with Cal Am that some type of departure from traditional ratemaking principles is appropriate for the Coastal Water Project. DRA finds some merit in Cal Am’s argument to gradually step-up rates to avoid rate shock if the Coastal Water Project is approved. If approved by the Commission and subsequently built, the Coastal Water Project, will cost close to \$200 million dollars. Because there are only about 38,000 Monterey ratepayers that will be paying for this project, the cost per ratepayer is substantial.

However, as previously stated, such a departure is unprecedented and the Commission should proceed with caution when departing from the used and useful principle. At a minimum, the Commission should not permit any recovery until the Commission has issued a CPCN for the project and construction on the project has begun. As discussed in section IV.C. below, DRA offers a number of recommendations and safeguards the Commission should adopt if it agrees that a departure from traditional ratemaking is appropriate.

- C. The Commission should err on the side of caution when allowing this unprecedented departure from traditional ratemaking**
- 1. The Commission should only permit limited recovery of construction costs after construction costs are incurred and require annual renewal of the surcharge**

DRA strongly opposes Cal Am's proposal to have ratepayers start funding the construction of the Coastal Water Project before Cal Am has received a CPCN for the project and construction has even begun. As discussed previously, it is still unknown if the Coastal Water Project will be built. The project could still become a regional facility or a publicly owned project. Permits from other agencies could be denied. Far too much uncertainty plagues this project to allow Cal Am to begin collecting "contributions" from the ratepayers at this time.

DRA recommends that the Commission authorize Cal Am to implement a limited surcharge on customers once construction on the Coastal Water Project or an alternative has begun. DRA concurs with Cal Am's recommendation to use revenues generated by the surcharge as a contribution to offset the costs of the Coastal Water Project, or other long-term supply solution that address the constraints imposed by State Water Resource Control Board Order 95-10 and the Endangered Species Act.¹⁶ However, DRA recommends that the Commission limit the amount the ratepayers will contribute to 10 percent of Cal Am's authorized revenue requirement for the first year.

Even if the Commission issues a CPCN to Cal Am and it obtains all of the other necessary approvals to build the Coastal Water Project or alternative project, there is still always the possibility of project abandonment. As discussed previously, there is also a good possibility that the project could become a publicly owned facility before it is

¹⁶ DRA notes that in hearings Cal Am witness Stephenson clarified that Cal Am seeks only to be able to use the funds collected for projects that reduced production from the Carmel River and not for things such as habitat restoration or other compliance related ESA costs. (Cal Am/Stephenson, 5 RT 557.) DRA agrees with this limitation.

completed.¹⁷ Allowing Cal Am to begin funding the project through contributions by ratepayers after the project is permitted but before the project is used and useful still shifts significant risks from the shareholders to the ratepayers and requires that Commission to proceed with caution.

Cal Am's request has the ratepayers contributing excessive amounts toward project. If the Commission grants a CPCN for the Coastal Water Project by July 2007, Cal Am witness Mr. Feizollahi testified that the Coastal Water Project could be completed by late 2010. (Cal Am/Feizollahi, 2 RT 129; Cal Am, Exhibit 23, p. 7.) If the project is completed by late 2010, Cal Am's proposal would have ratepayers contributing at least \$68 million toward the project. If the project is not completed until 2012 as Cal Am indicated in a recent Advice Letter filed with the Commission,¹⁸ ratepayers would be contributing at least \$114 million toward the project. This is excessive and transfers far too much risk to ratepayers.

Special Request #2 – Surcharge Contribution

Year	Contribution Generated *	Cumulative Contribution
2007	\$ 7,272,500	\$ 7,272,500
2008	\$ 14,775,100	\$ 22,047,600
2009	~ \$ 23 million	~ \$ 45,047,600
2010	~ \$ 23 million	~ \$ 68,047,600
2011	~ \$ 23 million	~ \$ 91,047,600
2012	~ \$ 23 million	~ \$ 114,047,600

* Data for 2007 through 2009 from Exhibit 13A, Ex. A. Contribution estimates for 2010 through 2012 are based on 2009 contributions and provides a minimum contribution for those years. Actual contribution for 2010 through 2012 would be higher because base rates would likely increase as a result of 2009 general rate case.

Specifically, DRA recommends the Commission authorize Cal Am to begin surcharge 2 only after construction on the Coastal Water Project, or alternative, begins

¹⁷ See supra section III.A.1.

and limit the amount of surcharge that can be collected to an amount equal to 10 percent of annual revenue requirements.

Requiring that construction on the Coastal Water Project, or an alternative, begin before allowing the surcharge for contribution to off-set construction costs to start provides ratepayers at least some protection and assurance that the project is environmentally sound, that alternatives have been fully considered, that all permitting agencies have approved the project, and that the most feasible project is the one that ratepayers are contributing to. Limiting the amount that ratepayers contribute will reduce the amount of risk shifted from shareholders to ratepayers while still helping to reduce the potential for rateshock.

2. The Commission must adopt additional safeguards to assure that ratepayers are not harmed from this unprecedented departure from traditional ratemaking.

DRA recommends that the Commission adopt additional safeguards to protect ratepayers if the Commission decides to depart from traditional ratemaking and allow Cal Am to begin collecting revenues to fund the Coastal Water Project or an alternative project before the project is in service and used and useful. In addition to starting the surcharge only after construction on the project has begun, limiting the surcharge to only 10 percent of Cal Am's authorized revenue requirement, and requiring annual renewal of the request, DRA recommends the following safeguards to protect ratepayers.

a) Plant funded from contribution must be permanently excluded from rate base to protect ratepayers.

Throughout hearings several witnesses discussed the potential for the Coastal Water Project, or an alternative, to some day be publicly owned. Because Cal Am's proposal has ratepayers contributing to the plant before it is completed and used and useful, there is the potential that ratepayers could end up paying for the plant twice and

(continued from previous page)
¹⁸ See supra footnote 3.

for Cal Am to profit off of the ratepayers' contribution if the Commission does not adopt safeguards. For example, if ratepayers contributed \$100 million toward the Coastal Water Project and the project is sold to a public agency for \$200 million, unless ratepayers are some how compensated for the \$100 million they already contributed, the ratepayers will pay twice because they will presumably be paying the \$200 million used to purchase the plant in their water bills.

For this reason, DRA proposes that customer contribution to utility plant be subject to the same type of rules and procedures the Commission has established for government financed funds, such as grants and loans in D.06-03-015. Specifically, DRA recommends:

- ❑ If the Coastal Water Project or alternative project is sold to a private non-regulated company, Cal Am should return to ratepayers a pro rata share of the fair market value of the project.
- ❑ If the Coastal Water Project or an alternative project is sold to a public entity, Cal Am will not seek any compensation for the fair market value of the pro rata share of the plant contributed by the customers.
- ❑ If the entire Monterey District water system is sold to an investor owned water utility, Cal Am will not seek any compensation for the fair market value of the pro rata share of the plant contributed by the customers and it will be retained on the books as customer contribution by the purchasing utility.
- ❑ If the entire Monterey District water system is sold to a public entity, Cal Am will not seek any compensation for the fair market value of the pro rata share of the plant contributed by the customers.
- ❑ Contributed plant should be permanently excluded from rate base.

DRA's recommendation is consistent with past Commission practice. In Resolution F-632, the Commission authorized Hillview Water Company, a class C water

Company, to enter a loan contract with a bank to pay off an existing Safe Drinking Water Bond Act loan. (Resolution F-632, p. 1.) This loan was secured by the customers through a surcharge. The new loan funds were to be used by Hillview to make various capital improvements. (Id. at p. 5.) The Commission authorized Hillview to increase its monthly surcharge to amortize the principal and interest on this new loan. (Id. at p. 1.) In authorizing this transaction, the Commission addressed that issue that customer could end up paying for the funded plant twice if there was a sale of the utility. The Commission stated:

Although Hillview is not presently contemplating a sale of its system to a public entity, such a sale could occur at some future date. So that utility customers are not put in the position of paying twice for the plant financed by the proposed surcharge, Hillview should not receive any compensation for the plant financed by the surcharge in the event of a sale. (Id. at p. 8.)

The Commission required Hillview to permanently exclude from ratebase for ratemaking purposes the plant financed by the loan that was paid for by customers through a bill surcharge. (Id. at p. 12.)

Here we know that there is a good chance that the Coastal Water Project or an alternative could be sold to a public entity. As previously discussed, the Monterey County Code requires that any desalination plant be publicly owned and operated and Cal Am's proposal contemplates possible future public acquisition. The Commission must protect ratepayers from paying for the project twice. DRA's recommendation to require customer contribution to utility plant be subject to the same type of rules the Commission adopted in D.06-03-015 for government financed plant provides ratepayers the necessary protections. Cal Am should not seek any compensation for the ratepayer funded portion of the project should the Coastal Water Project be acquired or sold.

b) The Commission should authorize the surcharge on a provisional basis with additional safeguards.

DRA recommends that the Commission authorize a surcharge to collect funds to be used as contribution to the Coastal Water Project or alternative once construction has begun on a provisional basis. DRA recommends that the surcharge be reviewed annually to determine whether continuation is appropriate. This way if it looks like the project may change or a change of ownership may occur, the surcharge could be reevaluated or discontinued. DRA also recommends the Commission adopt other safeguards to protect ratepayers from unnecessary risk and to protect the funds collected.

Specifically, DRA recommends:

- The Commission require Cal Am to book contributed funds to a new memorandum account used solely for the purpose of offsetting the future capital costs of any long-term water supply solution. The new memorandum account should be called “SWRCB Order 95-10 Water Supply Customer Contribution Memorandum Account.”
- The Commission require the SWRCB Order 95-10 Water Supply Customer Contribution Memorandum Account to earn interest at Cal Am’s authorized rate of return because ratepayers are in essence investing capital for the plant.
- The Commission specify that funds booked to the SWRCB Order 95-10 Water Supply Customer Contribution Memorandum Account can only be used to offset future capital costs of any long term water supply solution that is ultimately approved, or be refunded to ratepayers if something changes and a new plant is no longer necessary. Funds should not be used for Endangered Species Act (ESA) compliance costs or fines.
- The Commission require Cal Am to seek renewal of this request annually in this proceeding or, any subsequent application that reviews preconstruction costs or total project costs, or, if no CWP proceeding remains and

construction has begun, by advice letter. The Commission should require Cal Am to report on the Coastal Water Project progress and provide justification for continuing or increasing this customer contribution surcharge.

- The Commission require Cal Am to seek Commission authority to disburse or transfer funds to a new customer contribution account in utility plant to offset approved plant charges for the Coastal Water Project or other long term water supply solution once the project or alternative becomes used and useful. That account should be labeled “SWRCB 95-10 Customer Contribution.”
- The Commission require Cal Am to permanently exclude from rate base all contribution booked to SWRCB 95-10 Customer Contribution account.

IV. SURCHARGE STRUCTURE

A. A volumetric surcharge is fair and equitable and requires higher water users to pay more.

DRA recommends that any interim surcharge authorized to recover preconstruction costs or to fund construction of the Coastal Water Project, or alternative long-term water supply project, be structured as a volumetric charge on each unit of water rather than calculated as a percentage of the customer’s bill as proposed by Cal Am. As discussed in DRA’s Report, there are inequities in both the existing Cal Am rate design and the rate design Cal Am proposed in the pending GRC for the Monterey District that results in customers being charged vastly different amounts for that same water usage. (Exhibit 18, p. 33.) Under the current rate design, a household of three with no large animals, living on a quarter acre lot, using 20 units of water during the summer would be charged almost double what the same household living on a lot larger than four acre lot would pay. (*Id.*) This discrepancy is even greater under the Cal Am’s proposed rate design. (*Id.*) By basing the surcharges as a percentage of the bill, Cal Am is carrying this inequity forward. (Exhibit 18, p. 35)

Moreover, Cal Am provided DRA with data that showed that low-income customers use more water in the higher rate blocks. Thus, if the surcharge is structured as a percentage of the bill, these low-income customers will pay higher surcharges for the same usage. (Exhibit 18, p. 35)

Cal Am's ratepayers support charging higher users higher rates. (Exhibit 37, p. 17.) A volumetric surcharge will do just this. Everyone that uses the same quantity of water will pay the same surcharge amount. Those that use more will pay more. In addition, a volumetric surcharge will provide a conservation signal to customers, as customers will pay a higher total surcharge in proportion to their usage.

DRA recommends a volumetric surcharge because it is a straightforward, fair, and easy to understand ratemaking mechanism that is independent of the rate design. DRA notes that the pre-release Proposed Decision in the A.05-02-012 adopts neither the existing or the proposed rate designs that parties analyzed in this proceeding, but recommends a third alternative that has not been analyzed by either Cal Am or DRA. A volumetric surcharge is the same regardless of rate design and should be adopted.

B. Low income ratepayers participating in Cal Am's PAR program should be charged only half of any approved surcharge.

Because of the significant impact the Coastal Water Project, or alternative, will have on customer rates, DRA recommends that Cal Am low-income customers that participate in Cal Am's Program for Alternative Rates ("PAR") pay half of the interim rate surcharges the Commission authorizes Cal Am to charge other customers. Because estimated surcharge revenues from PAR customers make up less than 1 percent of the total surcharge revenue, DRA's recommendation would result in only a small increase to the remaining Cal Am customers. (Exhibit 18, p. 38.)

Cal Am does not oppose DRA's recommendation to allow PAR customers to pay half of what other residential customers pay or to require Cal Am to enhance the

notification of the PAR program.¹⁹ (Exhibit, p. 24-25.) The Commission should adopt DRA's recommendations for PAR customers.

C. Final Coastal Water Project recovery mechanism should be determined in a subsequent phase of this application.

The recommendations made by DRA in this report pertain only to Cal Am's request for interim rate relief, and not to any ultimate cost recovery Cal Am requests. DRA recommends the Commission consider not only final project cost but also recovery mechanisms in a subsequent phase of this application. DRA will analyze ultimate project costs and recovery mechanisms in Phase II of this proceeding and may recommend an entirely different approach for ultimate cost recovery of project capital and ongoing operations and maintenance costs.

V. CONCLUSION

For all of the foregoing reasons, and for the reasons set-forth in its testimony, DRA recommends that the Commission adopt its recommendations regarding special request surcharges 1 and 2.

Specifically, DRA recommends the Commission allow Cal Am to implement a surcharge to recover preconstruction costs after the Commission has issued a CPCN for the project and after preconstruction costs have been reviewed for reasonableness. Specifically, DRA recommends the Commission defer approving recovery of the engineering and environmental preconstruction costs incurred through 2005 and authorize DRA to hire a contractor under a reimbursable contract to review these costs and 2006 and 2007 preconstruction costs. DRA recommends the Commission disallow \$1.2 million in public outreach and administration costs incurred through 2005 as unreasonable and unnecessary.

To prevent rateshock, DRA recommends that the Commission authorize Cal Am to implement a limited surcharge, with safeguards, to fund the Coastal Water Project, or

¹⁹ Cal Am does not oppose the notification requirement as long as the costs of the enhanced notification is considered a part of the cost of the Coastal Water Project.

alternative, that would begin after the Commission has approved the project and after construction on the project has begun. Revenue generated from the surcharge should be treated as a contribution to off-set the cost of the Coastal Water Project or alternative. The Commission should limit the amount that ratepayers will contribute to 10 percent of Cal Am's authorized revenue requirement for the year. The customer contribution to the Coastal Water Project should be permanently excluded from ratebase to protect ratepayers.

Because of inequities in Cal Am's rate design which result in customers being charged vastly different amounts for the same water usage, DRA recommends that both surcharges be structured as volumetric charges on each unit of water. With a volumetric surcharge everyone that uses the same amount of water will pay the same surcharge amount. DRA also recommends that ratepayers participating in Cal Am's low-income program pay half of any surcharge the Commission authorizes.

Respectfully submitted,

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September 1, 2006

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of “**OPENING BRIEF OF THE DIVISION OF RATEPAYER ADVOCATES ON CALIFORNIA AMERICAN WATER COMPANY’S REQUEST FOR INTERIM RATE RELIEF**” in **A.04-09-019**, by using the following service:

☒ **E-Mail Service:** sending the entire document as an attachment to an e-mail message to all known parties of record to this proceeding who provided electronic mail addresses.

☐ **U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Executed on **September 1, 2006** at San Francisco, California.

/s/ REBECCA ROJO

Rebecca Rojo

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address and/or e-mail address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

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